



Office of the City Manager

INFORMATION CALENDAR

December 11, 2012

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Andrew Clough, Director, Public Works

Subject: Status Report: Purchase Order Audit – Select Public Works Divisions at the Corporation Yard

INTRODUCTION

The City Auditor conducted a performance audit of purchases made using purchase orders (POs) during FY 2004 in the Equipment Maintenance and Streets & Utilities Divisions of Public Works, which are located at the City’s Corporation Yard. The audit was conducted to determine whether purchasing and payment activities in these Divisions of Public Works were in compliance with written policies and procedures, and had an adequate internal control structure. The Auditor’s report was submitted to Council on March 15, 2005.

The full audit, including the text of all findings and recommendations, can be found on the City’s website at: [www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/PurchasingFinalRpt71.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/PurchasingFinalRpt71.pdf). Updates on the status of recommendations have been provided to Council in December 2005, included as part of the Citywide Response to Outstanding Audit Recommendations in May 2006, in October 2008, and the last status report in May 2010. This report only addresses the implementation status of the single audit recommendation that has not been fully implemented as of the last status report. The next status report will be submitted to Council by December 17, 2013.

CURRENT SITUATION AND ITS EFFECTS

The original audit report contained 23 audit recommendations. To date, 19 have been implemented, 3 alternatives to audit recommendations have been implemented, and a single recommendation, recommendation 4, has not been implemented.

The single remaining open recommendation reported here was based on presumed functionality of FUNDS\$ modules, which has turned out not to be reliable for this purpose. While there have been continued attempts at alternative approaches over the years, the recommendation as written cannot be implemented. The most promising alternative now being explored is to contract with a vendor that would be on-site for the procurement and distribution of auto parts; another option may be to integrate the City’s new work order system to meet the needs of fleet operations. Neither of these possibilities would be initiated or in place before FY 2014.

**Finding 4: No Reconciliation is Performed to Identify Parts Purchases that are Neither on Hand in Inventory Nor Recorded in the Fleet Management Module as Used for a Repair.**

Recommendation 4.0: At least quarterly, parts and outside service expenditures recorded in the FUND\$ general ledger should be reconciled to the cost of these parts and services charged to jobs in the Fleet Management Module, and the change in the value of the in-house parts inventory. An employee who does not have significant involvement with the activity being reconciled should perform the reconciliation and this reconciliation should be documented in writing and retained. The cause of significant differences should be researched, identified, and corrected. This procedure should be part of the divisions' written policies and procedures.

**Status:** Not Implemented. As detailed in previous status reports, various approaches taken to address this recommendation have been unsuccessful or unsustainable: the FUND\$ modules for Fleet Management and Purchasing & Inventory are no longer used to track parts; the Electrical and Janitorial Inventory modules were closed out by Public Works in 2008; and use of all other Inventory modules in FUND\$ was also discontinued. No other inventory and reconciliation software was found compatible to meet staff's needs.

Due to staffing and other cuts in Fleet Maintenance, there have been insufficient resources available to conduct the recommended inventory and reconciliation of all parts, or to monitor a secure parts room during all working hours, at two separate maintenance facilities, operating on three shifts. The annual budget for the Equipment Maintenance Fund is \$800,000 in parts and \$200,000 in tires to service City vehicles throughout the year. Most items are purchased as needed and used for current work, and then billed to departments as part of the cost of services. The total value of parts and tires retained on-site as inventory is approximately 4% of the annual expense and, for example, was about \$40,000 in June 2012.

**BACKGROUND**

Public Works Equipment Maintenance is located at the City's Corporation Yard, and also maintains a facility at the Solid Waste Management Transfer Station. Equipment Maintenance is responsible for the repair, maintenance and acquisition of City of Berkeley fleet vehicles and heavy equipment.

**POSSIBLE FUTURE ACTION**

Public Works agrees that the department should have a cost effective system and continues to work on alternatives. The principal option, in lieu of new software or additional staffing, is the use of an outside vendor to serve on-site for the procurement and distribution of auto parts for Equipment Maintenance, which could be in place by FY 2014. Once the vendor is on board there would no longer be a parts inventory for City staff to reconcile, as inventory control would be the responsibility of the vendor. Another alternative is to investigate the new work order system's ability to be integrated into fleet operations and meet this need.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Until the RFP process for an outside vendor is completed, the fiscal impact is unknown.

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